Quarterly commentary | September 30, 2024
Series F

Mackenzie Ivy Canadian Fund

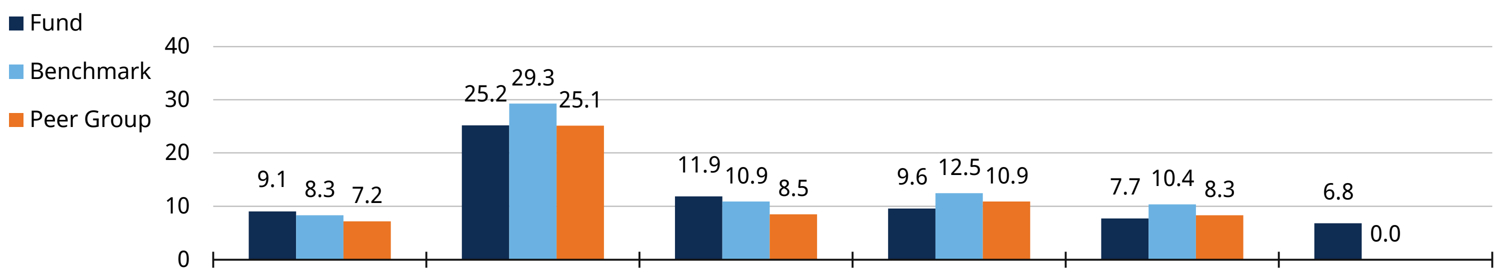
Fund snapshot

Inception date	12/06/1999
AUM (millions in CAD)	739.5
Management Fee	0.75%
MER	0.98%
Benchmark	60% TSX Comp + 30% S&P500 + 10% EAFE
CIFSC Category	Canadian Focused Equity
Risk Rating	Low to Medium
Lead portfolio manager	James Morrison
Investment exp. Since	2005
Target # of holdings	35-55

Strategy Overview

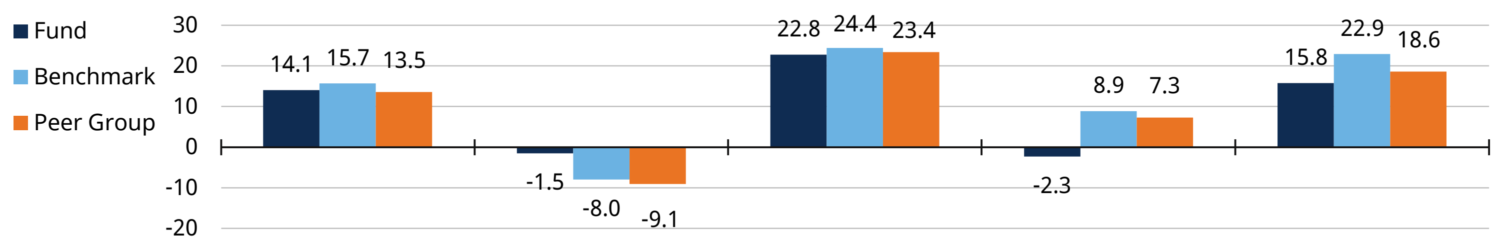
- Seeks to provide long-term capital appreciation by investing in a select group of high-quality companies
- Suitable as a long-term Canadian equity holding with lower-volatility characteristics and downside capture in volatile markets, the hallmark of Ivy's investment approach
- Diversifies outside Canada including into sectors and businesses not well represented domestically

Trailing returns %



	3 Mth	1 Yr	3 Yr	5Yr	10Yr	SI
Excess return	0.8	-4.1	1.0	-2.9	-2.7	6.8
% of peers beaten	84	53	84	34	47	NA

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	-1.6	6.5	-1.6	-11.2	-7.1
% of peers beaten	59	85	46	14	21

Portfolio characteristics

	Portfolio	Benchmark
# of holdings	40	1,459
% top 10 holdings	40.0	22.5
Weighted average market cap	344,827.7	461,933.2
EPS growth (FY E)	10.4	21.2
Dividend yield	2.3	2.4
FCF margin	14.2	13.9
P/E Trailing 12M	22.4	21.0
P/E (forecast)	19.0	17.7
Net debt/EBITDA	2.8	1.9
ROE (latest FY)	16.0	14.4

Sector allocation

Sector	Portfolio	Benchmark	Relative Weight
Financials	25.5	25.3	0.2
Energy	8.1	11.4	-3.3
Materials	5.4	8.8	-3.4
Industrials	10.4	12.0	-1.6
Information Technology	9.6	15.5	-5.9
Communication Services	6.1	4.9	1.2
Utilities	7.5	3.5	4.0
Consumer Staples	7.8	5.1	2.7
Consumer Discretionary	10.5	6.2	4.3
Real Estate	-	2.3	-2.3
Health Care	7.9	5.0	2.9
Other	1.4	-	1.4

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	10.5	12.7
Sharpe Ratio	0.8	0.6
Tracking Error	5.1	-
Information Ratio	0.2	-
Alpha	2.7	-
Beta	0.8	-
Upside Capture (%)	85.9	-
Downside Capture (%)	69.7	-

Country allocation

Country	Portfolio	Benchmark	RelativeWeight
Canada	68.6	60.0	8.6
United States	23.3	30.0	-6.7
United Kingdom	4.3	1.5	2.9
Switzerland	1.3	1.0	0.3
Germany	1.0	0.9	0.1
Hong Kong	-	0.2	-0.2
Other	1.4	6.4	-5.0

Regional breakdown

Region	Portfolio	Benchmark	Relative Weight
Canada	68.6	60.0	8.6
International	6.7	10.0	-3.3
United States	23.3	30.0	-6.7
Other	1.4	-	1.4

Currency exposure

Region	Gross	Benchmark
CAD	68.5	60.0
USD	24.8	30.1
Other	6.7	9.9

Top 10 holdings

Security name	Country	Sector	Weight
Brookfield Corporation	Canada	Financials	5.2
Intact Financial Corporation	Canada	Financials	5.1
CCL Industries Inc. Class B	Canada	Materials	4.2
Restaurant Brands International, Inc.	Canada	Consumer Discretionary	4.0
Royal Bank of Canada	Canada	Financials	3.9
Toronto-Dominion Bank	Canada	Financials	3.7
Emera Incorporated	Canada	Utilities	3.6
Microsoft Corporation	United States	Information Technology	3.3
Visa Inc. Class A	United States	Financials	3.2
Alphabet Inc. Class C	United States	Communication Services	3.2

Security level contributors and detractors

	Security	Average Relative weight (%)	% Contribution to return
Contributors	Brookfield Corporation	3.3	1.2
	Intact Financial Corporation	4.3	0.7
	Royal Bank of Canada	0.2	0.7
Detractors	ATS Corporation	0.9	-0.1
	Microsoft Corporation	1.4	-0.2
	Alphabet Inc. Class C	2.8	-0.4

Sector attribution relative to the benchmark

	Sector	Average Relative weight (%)	Allocation Effect (%)	Selection Effect (%)	Total Effect (%)
Contributors	Energy	-3.6	0.3	0.4	0.6
	Consumer Discretionary	4.6	-0.1	0.6	0.5
	Health Care	3.0	-0.1	0.5	0.4
Detractors	Real Estate	-2.2	-0.2	0.0	-0.2
	Industrials	-1.8	0.1	-0.3	-0.3
	Communication Services	1.4	-0.1	-0.3	-0.4

Commentary

Market overview

- Overall, the third quarter of 2024 was marked by significant volatility but ended on a positive note for both equities and fixed income markets, thanks to central bank actions and resilient economic data. The US stock market rebounded from an August dip, with a notable rotation from big tech and growth stocks to value names and smaller stocks. The Federal Reserve's aggressive interest rate cuts helped boost market sentiment. Economic data proved more resilient than expected, with soft readings on inflation suggesting that price pressures are abating. This helped alleviate fears of a recession and supported market recovery. In Canada, equities reached their highest closing price ever during the quarter. In September, the Bank of Canada lowered its policy interest rate again, from 4.75% to 4.25%, helping to reduce borrowing costs and ease some pressure on households. Inflation in Canada has decreased, contributing to the Bank of Canada's decision to lower interest rates. The real estate, utilities, and financials sectors were the strongest performers within the blended benchmark over the quarter, while the energy, information technology, and health care sectors were the weakest. From a country perspective, Hong Kong, Singapore, and Belgium were the strongest performing markets in the blended benchmark, while Denmark, the Netherlands, and Norway were the weakest.

Fund Performance

- The fund returned 9.1% during the quarter, outperforming the benchmark return of 8.3%. Stock selection in consumer discretionary, health care, and energy contributed to fund performance, along with an overweight allocation to utilities and underweight allocations to energy and information technology. Stock selection in communication services and industrials, along with an underweight allocation to real estate were the largest detractors from performance. From a country perspective, stock selection in the United Kingdom and Canada, along with an overweight allocation to Canada contributed to performance. An overweight allocation to the United Kingdom and stock selection in the United States were detractors from performance.

Security contributors

- On an absolute basis, positions in Artizia, Brookfield, Bank of Nova Scotia, Emera, and Royal Bank of Canada were the largest contributors over the quarter. On a relative basis, positions in Brookfield, Aritzia, Emera, and CCL Industries were top contributors to fund performance versus the benchmark. Not holding Canadian Natural Resources in the fund during the quarter also contributed to performance relative to the benchmark.

Security detractors

- On an absolute basis, positions in ATS Corporation, Alphabet, Microsoft, Suncor Energy, and Alimentation Couche-Tard were the largest detractors over the quarter. On a relative basis, positions in Alphabet, Restaurant Brands International, and Alimentation Couche-Tard were top detractors from fund performance versus the benchmark. Not holding Shopify and CIBC in the fund during the quarter also detracted from performance relative to the benchmark.

Portfolio activities

- During the quarter, we did not initiate any new positions, and we did not exit any positions. Largest increases in weight were Toronto-Dominion Bank, Abbott Laboratories, and Canadian Pacific Kansas City Limited. Largest decreases in weight were Alphabet, Danaher Corporation, and Royal Bank of Canada.

Outlook, Positioning

- Looking ahead, there are a lot of moving parts in the world right now. Geopolitical conflict, declining interest rates, the US election, China weakness / stimulus, and affordability challenges to name just a few. This underscore the importance of investing in high-quality businesses that can adapt to constantly changing conditions, and then taking great care to ensure that the risks within our portfolio are sufficiently diversified. Time and again, Mackenzie Ivy Canadian Fund has protected in moments of market disruption, while providing prudent participation in markets over time. This has allowed our clients to sleep at night and plan for their futures with confidence. We have every intention of continuing to do this long into the future.

Commentary

Stock stories

Alimentation Couche-Tard (ATD):

- Alimentation Couche-Tard has grown organically and through disciplined acquisitions to become one of the largest convenience store chains globally.
- In August, the company confirmed that it submitted a friendly, non-binding proposal to purchase Seven & I Holdings. If completed the acquisition would be the largest in its history (>US$45B equity value) and would likely require an equity issuance. We believe the uncertainty of the deal and a potential equity issuance are weighing on the shares.
- We are supportive of the proposal given the company's history as a disciplined acquirer and the opportunistic nature of the bid. The company has M&A ingrained into its culture and we believe any potential deal would come with significant synergies and adhere to management's long-stated return hurdles.
- ATD has closely watched and wanted to acquire Seven & I Holdings for many years, but the timing of the offer highlights ATD's patient and opportunistic nature. With the presence of an activist shareholder, the depreciation of the yen, increased regulatory pressure for companies to consider offers in Japan, and a weak share price, everything aligned.
- At the company's recent investor day, management laid out a plan to achieve a 12% compounded growth in EBITDA over the next 5 years. As we look forward, we believe the company has multiple avenues to grow and achieve their targets. In the meantime, the stock has been driven by news flow around the deal – we have used our long-term approach to take advantage of the volatility and add to our position.

Aritzia:

- Last year, we were able to opportunistically build a position in Aritzia, a high-quality women's apparel retailer with a well-established business in Canada and an attractive growth runway in the United States. Over the past year, it has been the top performing holding for Mackenzie Ivy Canadian Fund, up 115% as of September 30, 2024.
- We believe Aritzia has the opportunity to continue to expand their presence in the United States, leveraging their strong brand, differentiated products, and compelling store economics. The company has a unique model that is vertically integrated, quick to adapt, and remains focused on their niche (affordable luxury).
- When we initiated our position, the stock was down over 40% from its previous peak, due to near-term concerns for a potential recession in Canada and margin headwinds. After extensive due diligence, we were able to build confidence that these headwinds were temporary, the margin of safety embedded in the valuation offered a buffer for a deteriorating macroeconomic environment, and the long-term fundamentals remained solid. Since then, management has continued to methodically execute against its plan and our thesis, and the share price has responded accordingly, despite the fact that the macroeconomic backdrop remains largely unchanged.

Dollarama:

- Dollarama is a world-class retailer that offers a compelling combination of value and convenience to customers spanning a wide demographic. It has been a top holding and contributor to Mackenzie Ivy Canadian Fund's long-term and recent performance.
- One of the key long-term risks we monitor is market saturation. We track this at a provincial level and based upon our most recent assessment, we believe the company can continue with the current pace of new store additions in Canada through to the end of our 10-year investment horizon.
- Despite the remaining runway for growth in the domestic market, management has been methodically planning its next leg of growth for over a decade. In 2013, it entered into a partnership with a Central American dollar chain called Dollarcity. Since then, Dollarcity has grown from 15 stores to >500 in four markets.
- In June, Dollarama announced that it increased its ownership stake from 50% to 60% and will expand into Mexico, doubling the addressable population for Dollarcity.
- Today, Dollarcity accounts for approximately 7% of earnings and we expect that the combination of increased ownership, market share gains and scaling benefits will meaningfully extend Dollarama's growth runway.

Commentary

Emera:

- Emera operates transmission and distribution assets across North America.
- The company has a highly visible growth runway supported by the essential role of transmission in the electrification and decarbonization of the economy and the need for grid-resilience in the face of climate change.
- The company's largest subsidiary, Tampa Electric, was recently hit by Hurricane Milton. While it's too soon to assess the near-term financial implications of this event, the rising prevalence of severe weather only reinforces the need for investment in resilient infrastructure, supporting the long-term growth outlook for the business.
- Management recently updated its capital allocation framework and provided earnings per share (EPS) guidance, with the objective of quelling uncertainty around the level of dilution required to fund its robust growth pipeline while reducing leverage. Management intends to grow its rate base at 7%-8% per year over the next five years, which it expects to translate into EPS growth of 5%-7% net of dilution for the next three years.
- We see the shares as offering an attractive combination of growth (5%-7%), yield (6%) and protection.

Restaurant Brands International (QSR):

- The quick-service restaurant industry has come under pressure as same-store sales decelerate from elevated levels in the face of deteriorating consumer health.
- This is expected to result in an increasingly promotional competitive environment to drive traffic by shining a spotlight on value offerings, which has weighed on the share prices of QSR and its peers.
- While we agree it represents an industry headwind, we expect some to fare better than others in this type of an environment.
- Restaurant Brands is well positioned in our view to gain share in a value-oriented market, given its natural value orientation in Tim Hortons and Burger King.
- We view the shares as attractively priced despite the more challenging backdrop.

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